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IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

AVANT! CORPORATION, GERALD HSU, MITSURU IGUSA, AND CHIH-LIANG CHENG,

Petitioners,

v.

CADENCE DESIGN SYSTEMS, INC.,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

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AVANT!'S REPLY TO BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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INTRODUCTION

Under the rule announced in this case by the Ninth Circuit, courts are stripped of their authority to consider the availability of damages as a factor weighing against the grant of preliminary injunctive relief in copyright cases. This rule creates a significant conflict among the circuits. This conflict is not limited, as Cadence suggests, to the Fifth Circuit, which does not recognize the presumption of irreparable harm. To the contrary, even courts in circuits that apply the presumption permit defendants to rebut it by showing that any injury a plaintiff might suffer before final judgment can be remedied through a damages award.

The Ninth Circuit's rule rests on a view of the Copyright Act that this Court expressly rejected in Fogerty v. Fantasy, Inc., 510 U.S. 517 (1994). In reversing the Ninth Circuit's "dual standard" for the award of attorneys' fees, this Court held that the underlying purposes of the Copyright Act are frustrated by statutory interpretations that place heavier burdens on defendants than on copyright holders. The broad public interest in promoting creative works, this Court held, may be advanced by a successful defense of an infringement claim just as much as by a successful prosecution. Id. at 527.

By prohibiting courts from considering even the most compelling demonstration of the availability of damages, the Ninth Circuit has imposed an especially difficult burden on defendants, one that will do more to discourage the litigation of meritorious defenses than the threat of an attorneys' fees award. A preliminary injunction is the most formidable remedy available to a

copyright plaintiff. Such relief can shut down a competing product and drive a competitor out of business before a trial on the merits and a full consideration of all defenses. If a preliminary injunction is granted in error, the defendant may have no effective recourse.

The legislative history of the Copyright Act shows that Congress intended to preserve courts' traditional equitable discretion to grant or deny preliminary injunctions. Nothing indicates that Congress wanted courts to exercise that discretion in a manner that favors interim relief for copyright holders. Thus, courts should not be prevented from weighing the full range of equitable factors, including the availability of damages for any injury suffered before final judgment. Accordingly, this Court should grant the petition for writ of certiorari.

I. ABSENT A CLEAR STATEMENT BY CONGRESS, TRADITIONAL EQUITABLE PRINCIPLES APPLY TO THE ISSUANCE OF PRELIMINARY INJUNCTIONS.

Unless Congress specifically directs otherwise, federal courts weigh the full panoply of traditional equitable considerations in deciding whether to grant injunctive relief under federal statutes. See, e.g., California v. American Stores Co., 495 U.S. 271, 281 (1990) (Section 16 of the Clayton Act "indicates Congress' intention that traditional principles of equity govern the grant of injunctive relief").

Section 502(a) of Title 17 states that a federal court "**may** . . . grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright." (Emphasis added). This statute recodified 17 U.S.C. § 112, which stated that an

injunction could be granted "according to the course and principles of courts of equity." See H.R. Rep. No. 94-1476, at 160 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5776.

The interpretation of Section 502(a)'s permissive "may" is central to this case. Congress' use of "may" in a statute is a direction to courts to apply equitable discretion. United States v. Rodgers, 461 U.S. 677, 708 (1983). Even where congressional language appeared mandatory, as was the case with Section 205(a) of the Emergency Price Control Act of 1942,[1] this Court has refused to tread on the equitable discretion of federal courts in issuing injunctions. Affirming courts' traditional equitable discretion, this Court stated:

> We are dealing here with the requirements of equity practice with a background of several hundred years of history. . . . The essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it. The qualities of mercy and practicality have made equity the instrument for nice adjustment and reconciliation between the public interest and private needs as well as between competing private claims. We do not believe such a major departure from that long tradition as is here proposed should be lightly implied.

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[1] That statute stated in relevant part:
"[U]pon a showing by the Administrator that such person has engaged or is about to engage in any [pronibited] acts or practices a permanent or temporary injunction . . . **shall** be granted without bond." (Emphasis added).

Hecht Co. v. Bowles, 321 U.S. 321, 329-30 (1944).

Where Congress has not clearly directed otherwise, federal courts must apply the traditional requirements for a preliminary injunction. "The Court has repeatedly held that the basis for injunctive relief in the federal courts has always been irreparable injury **and the inadequacy of legal remedies**." Weinberger v. Romero-Barcelo, 456 U.S. 305, 311 (1982) (emphasis added). Cadence offers no compelling reason to depart from this requirement in copyright cases.

II. THE NINTH CIRCUIT'S RULE CONTRADICTS THIS COURT'S REASONING IN FOGERTY.

The Ninth Circuit's new rule reflects an underlying view that a court's discretion should be exercised in a manner that gives broadest preference to a copyright holder's interests. This view was expressly rejected in Fogerty v. Fantasy, Inc., 510 U.S. 517 (1994). At issue there was 17 U.S.C. § 505, which provides that a court "may" award reasonable attorneys' fees to a prevailing party. The Ninth Circuit imposed a "dual standard" on a court's exercise of its discretion under this provision: a court must award fees to a prevailing copyright holder as a matter of course, but a court would abuse its discretion by awarding fees to a prevailing defendant absent a showing that the original suit was frivolous or was brought in bad faith. Id. at 520. The Ninth Circuit explained that the purpose of imposing the heavier burden on defendants was to "avoid chilling a copyright holder's incentive to sue on colorable claims, and thereby to give full effect to the broad protection for copyrights intended by the Copyright Act." Id. at 520 n.6.

In reversing the Ninth Circuit, the Fogerty Court rejected the view that the Copyright Act elevates the

interests of copyright holders over competing interests. The Act "ultimately serves the purpose of enriching the general public through access to creative works." Id. at 527. The Court noted that a "successful defense of a copyright infringement action may further the policies of the Copyright Act every bit as much as a successful prosecution" of an infringement claim by a copyright holder. Id.

In Fogerty, the Court held that the Copyright Act required courts to exercise their discretion even-handedly in awarding attorneys' fees to either party. Similarly, the Act requires a court to weigh fairly all of the equities when considering a request for a preliminary injunction. Certainly, nothing in the statute and its purposes requires the granting of injunctive relief where an adequate legal remedy exists and an erroneous injunction could deprive the public of an important work.

III. THE NINTH CIRCUIT'S NEW RULE OF LAW FOR INJUNCTIVE RELIEF CONFLICTS WITH THE LAW OF THE OTHER CIRCUITS.

Cadence cannot contradict the fact that the rule announced by the Ninth Circuit in this case creates a true split of authority. Before this decision, no court had ever held that the adequacy of money damages is entirely irrelevant to the issuance of interim injunctive relief.

It is not disputed that the Ninth Circuit rule conflicts with that of the Fifth Circuit. In the Fifth Circuit, a preliminary injunction may not issue if the harm from the alleged copyright infringement is "compensable in damages." Plains Cotton Coop. Ass'n v. Goodpasture Computer Serv., Inc., 807 F.2d 1256, 1261 (5th Cir.), cert. denied, 484 U.S. 821 (1987). In that case, the court noted that the sale of allegedly infringing commercial software

"does not seem to present many possibilities for the infliction of unquantifiable damages." Id.

Contrary to Cadence's argument, the Fifth Circuit is not the only court in conflict with the Ninth Circuit. Cadence's attempts to distinguish the cases cited in the Petition ignore the clear language of those decisions concerning the adequacy of money damages as a bar to injunctive relief. Marisa Christina, Inc. v. Bernard Chaus, Inc., 808 F. Supp. 356, 360 (S.D.N.Y. 1992), is directly on point. As that court stated: "A preliminary injunction is an extraordinary remedy that a court grants to prevent immediate and irreparable harm . . . [W]e believe that plaintiff can be fully compensated through damages." Id. Cadence contends Belushi v. Woodward, 598 F. Supp. 36, 37 (D.D.C. 1984), held that an injunction will not issue if the harm complained of is *de minimis* -- a statement that appears nowhere in the opinion. In fact, that court denied a preliminary injunction after analyzing the traditional equitable considerations, including whether "a legal remedy will adequately compensate for any infringement." Id.

Cadence similarly misstates the holdings of two other cases cited by Avant!, Walt Disney Productions v. Basmajian, 600 F. Supp. 439, 441 (S.D.N.Y. 1984), and Kamakazi Corp. v. Robbins Music Corp., 534 F. Supp. 57, 68 (S.D.N.Y. 1981). Preliminary injunctions were denied in these cases because the courts found, in part, that calculable "dollars and cents" damages do not "requir[e] equitable relief" (600 F. Supp. at 441), the evidence did not "rule out the possibility of money damages being determinable" (534 F. Supp. at 68), and the "claim of irreparable injury has therefore not been sufficiently established" (id.). Finally, Avant! cited American Fabrics Co. v. Lace Art, Inc., 291 F. Supp. 589 (S.D.N.Y. 1968),

which Cadence contends was decided solely on the adequacy of the copyright notice. The court, however, stated that plaintiff "failed to make even a threshold showing of irreparable harm" because "no reason is stated why money damages will not serve as an adequate remedy." Id. at 591-92. Lack of irreparable harm was one of the equitable factors considered, each one of which was an "adequate reason[ ]" to deny the preliminary injunction. Id. at 592.

Cadence similarly misreads the cases it cites. Cadence selectively quotes what it describes as the Ninth and Second Circuit rule from American Direct Marketing, Inc. v. Azad International, Inc., 783 F. Supp. 84, 96 (E.D.N.Y. 1992): "a finding of likelihood of success on the merits automatically triggers a preliminary injunction and failure to issue one is reversible error." Cadence omits the critical qualifier from the following sentence: "This is . . . a generalization." Id. at 96. As the decision goes on to explain, "many cases exist where this presumption has not been followed. Grounds for refusing this presumption include . . . damages clearly reducible to money." Id.

As the cases cited indicate, the circuits are split. Cadence attempts to divert attention away from this split by asserting that the rule Avant! is challenging is the presumption of irreparable harm. Opp. at 5-8. While it is true that several circuits other than the Fifth have adopted the presumption of irreparable harm in copyright cases, that is not the question presented by this Petition. The issue Avant! raises, as stated in the Petition, is whether courts may even consider the adequacy of a legal remedy in deciding whether to issue a preliminary injunction in a copyright case. In the Second Circuit, Fifth Circuit and the district courts of the District of Columbia, courts may weigh this traditional equitable

factor. With the ruling in this case, the courts of the Ninth Circuit may not. On this issue, there **is** a split of authority among the circuits, with the Ninth Circuit in a minority of one.

Cadence asserts that the presumption is of no use if it may be rebutted by the adequacy of money damages. It argues that a district court "**must** grant preliminary injunctions in cases in which the plaintiff establishes a likelihood of success." Opp. at 16-17 (emphasis added). First, Avant! does not assert here that the adequacy of a legal remedy would always rebut the presumption. As noted above, flexibility is the hallmark of equity, and this factor must be weighed with others in considering whether there would be irreparable injury. Second, Cadence ignores the well-settled function of an evidentiary presumption. The beneficiary of the presumption is relieved from the requirement of making a detailed showing of irreparable injury, and the burden of producing evidence shifts to the opposing party. See Entertainment Research Group, Inc. v. Genesis Creative Group, Inc., 122 F.3d 1211, 1217 (9th Cir. 1997) (certificate of copyright registration creates a presumption of validity and burden shifts to defendant to rebut presumption).

Cadence argues by analogy to the Federal Circuit's patent cases establishing a presumption of irreparable harm based on a clear showing of patent validity and infringement. Opp. at 14 n. 4. The analogy, however, favors this Petition. Cadence omits reference to more recent Federal Circuit authority holding that the adequacy of money damages may rebut the presumption. See Illinois Tool Works, Inc. v. Grip-Pak, Inc., 906 F.2d 679, 683 (Fed. Cir. 1990). As the Federal Circuit explained:

> Application of a concept that *every* patentee is *always* irreparably harmed by an alleged

> infringer's pretrial sales would . . . disserve the patent system. . . . [P]atentees should consider, weigh, and balance all of the equitable circumstances, in light of established jurisprudence, before moving for a preliminary injunction.

Id.; see also Calmar, Inc. v. Emson Research, Inc., 838 F. Supp. 453, 456 (C.D. Cal. 1993) ("[T]he ability to fully compensate any harm with money damages must be weighed in determining whether the principles of equity require the granting or denial of a preliminary injunction.").

IV. CADENCE'S "ALTERNATIVE HOLDING" ARGUMENT IS FRIVOLOUS.

What Cadence describes as the Ninth Circuit's "alternative holding" is not an independent basis for reversing the district court. As this Court has stated, to obtain injunctive relief in federal courts the movant must show irreparable injury and the inadequacy of legal remedies. Weinberger v. Romero-Barcelo, 456 U.S. 305, 311 (1982). If the district court was correct on the adequacy of a legal remedy, it is immaterial to the outcome whether the court properly balanced the harms. At most, it could be argued that the case should be remanded for a reweighing of the equities. See Hopwood v. Texas, 78 F.3d 932, 958 (5th Cir.), cert. denied, 116 S. Ct. 2580 (1996). In no event, however, would the Ninth Circuit's holding as to the balancing of harms constitute an "independent basis" for the reversal of the district court's denial of a preliminary injunction.

CONCLUSION

For the reasons set forth above and in the Petition, the Court should issue the writ of certiorari.

Respectfully submitted,

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